SOCIAL LOAFING AND LOAN REPAYMENT ACCOUNTABILITY IN GROUP-BASED MICROBUSINESS FINANCING

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ABSTRACT

Although individual lending is not unusual in microfinance, group lending, however, is considered as more common in this field. Through group lending, all group members are made responsible for the repayment of their loans. The group-based model financing is also viewed as effective in transferring the risk from the providers to the borrowers by imposing the social cost on the borrowers. Despite the high repayment rate recorded by the group-based microfinance institutions, there are arguments that this method of financing may lead to "social loafing", a concept related to a reduction of an individual's effort when working in a group. As there is limited research in this area, this study aims to explore the existence of such scenario in the largest and oldest microfinance institution in Malaysia, Amanah Ikhtiar Malaysia. Based on the observation and interviews with the members of the organization, this study found that to some extent "social loafing" does exist in Amanah Ikhtiar Malaysia. Although the situation is not common, "social loafing" is a serious issue that needs to be controlled in the organization as it is believed that it is contagious and may affect the whole organization in a long run.

Keywords: social loafing, repayment accountability, Amanah Ikhtiar Malaysia, group-based financing

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INTRODUCTION

Promulgated in 1970s by Professor Muhammad Yunus in Bangladesh, microfinance is often related to providing small loans without any collateral to the poor with the intention to improve their socio-economic conditions. Although individual lending is not unusual in microfinance, group lending however is considered as more common in this area. Moreover, the most replicated microfinance programme, Grameen is based on group lending. Generally, in group lending, all group members are jointly liable for the repayment of their loan (Eijkel, Hermes & Lensink, 2011). According to Becchetti and Pisani (2008), the performance of group lending microfinance institutions (MFI) is outstanding as the average loan loss for microfinance institutions worldwide is only at 1%. Moreover, previous studies also highlighted the effectiveness of group-based model in transferring the risk from the providers to the recipients of the micro credit by imposing the "social cost" on the borrowers (Stiglitz, 1990; Zhang, 2008). "Social cost" is the situation related to ones' reputation in the community, loss of dignity and trust. To avoid stigma among the community members, borrowers were 'forced' to repay their debts at a stipulated time period (Montgomerry, 1996; Premchamider, 2006; Yunus, 2007). Thus, unsurprisingly, some studies showed that the majority of the group lending type of MFIs haecorded nearly 100% repayment rate such as CARD Rural Bank in the Philippines, Amanah Ikhtiar Malaysia, and Funding the Poor Cooperative (FPC) in China (AIM, 2013; Hassan, 2013; Park & Ren, 2001; Seibel & Torres, 1999).

Based on these studies, it was concluded that group lending is efficient in ensuring almost perfect repayment rate among the borrowers. However, reviewing the situation in-depth, it seems that the perfect repayment rate neither reflects an increase in income of the borrowers nor moving them up from the poverty stage as the original intention of the establishment of the MFIs in 1970s. The almost 100% repayment rate of the MFIs simply suggests that their clients are paying their loans, regardless of their financial performance after borrowing from the MFIs. As the borrowers are bearing the "social cost", they are obliged to repay their debts either by using their own money from the successful projects, or even borrowing from others such as family members or other micro entrepreneurs in their groups if they experience any project failure. Moreover, due to the nature of the group lending, the liabilities are shared among the members, thus, forcing the other members to willingly repay the loan of the defaulters within their groups as any failure in repayment may jeopardize their chances to secure further loans from the MFIs.

Among practitioners or even scholars, there is a heated argument on lending to a group of people. It was argued that although group lending is effective in assuring credit repayment, individual borrower's reliance on other group members to repay the loan gives the former an incentive to free ride due to the "social loafing" (Abbink, Irlenbusch & Renner, 2006; Gine & Karlan, 2014; Kodongo & Kendi, 2013; Kono, 2014). Basically, "social loafing" is a concept related to a reduction of an individual's effort when working in a group (Latane, Williams & Harkins, 1979; Simms & Nicholas, 2014). Physical tasks such as rope pulling (Ringelmann's experiment in 1913) and clapping and shouting (see Latane, Williams and Harkins experiment in 1979) or cognitive tasks such as evaluating poems by Petty, Harkins, Williams and Latane in 1977, lab experiments conducted suggested that individuals put less effort while working in a group as compared to working alone (Simms & Nicholas, 2014).

In Malaysia, AIM is considered as the oldest and biggest MFI in the country (Nawai & Shariff, 2011). Adopting the Grameen Bank model, AIM practices a group based model and provides small amounts of loans without any collateral imposed on their clients (known as *sahabat*). As AIM is based on group lending there is a high possibility that the free-riders do exist among the *sahabats,* however there is no known study on this issue. Therefore, this study attempts to further contribute by exploring the existence of such scenario in the organization. In AIM, although *sahabats* of AIM are not directly working together in a project, they are inevitably required to indirectly monitor the performance of other *sahabats* in their groups, as they are jointly liable on the loan repayments of their colleagues.

LITERATURE REVIEW

Amanah Ikhtiar Malaysia (AIM)

Officially registered as a Private Trust Corporation in September 1987, AIM's main objective is to reduce the incidence of poverty among the poorest households in Malaysia by financing additional income generating activities via disbursement of benevolent loans. Started as a pilot project in the Northwest Selangor, AIM is currently serving more than 350,000 clients all over Malaysia with cumulative financing of more than RM12 billion (AIM, 2016). Adopting the Grameen Bank model, AIM practises a group based model and provides small amounts of loans without any collateral imposed on their clients (known as *sahabat1*). *Sahabat* is the term used by AIM for its clients. During an interview session with Mingguan Wanita magazine, Datuk Hajah Zabidah Ismail, the then Managing Director of AIM, said that the term *sahabat* took the spirit of brotherhood of the companions of Prophet Muhammad (pbuh2) who mutually supported each other through thick and thin. Through the emotional bond, it is expected that the AIM *sahabat* would support each other and have no doubt in reminding other *sahabat*s on their faults. She further added that this brotherhood concept was vital in AIM and is one of the "secret ingredients" of the effectiveness of the AIM programme (Abdul Kadir, September 2013).

In order to achieve their main objective, three types of products are provided by AIM, namely; Financing, Compulsory Savings, and *Sahabat* Charity and Welfare Fund. Under the financing scheme, AIM offers seven different types of loans that include both economic and social loans to their eligible *sahabat*. The loans are the (i) Economic loans of I-Mesra, I-Srikandi, I-Wibawa, I-Wawasan, and I-Penyayang, (ii) Education loan of I-Bistari, and (iii) Multipurpose loan of I-Sejahtera. Being awarded as the "Best Islamic Microfinance Institution" for three consecutive years from 2013 to 2015 by the Global Islamic Finance Awards (GIFA), AIM is committed to ensuring that the institution complies with the *shariah3* requirement (Omar, 2014). Therefore, as an Islamic Microfinance Institution, AIM is not charging any interest to the *sahabat*. Using *Qardhul Hasan* (Benevolent Loan) as the basis of their financing contract, there is no interest or profit being charged to the borrowers for each type of the loans. However, for its operating cost, AIM charges an administrative fee at the flat rate of 10% per annum for each loan (AIM, 2013; Kadri, 2011). Although the service charge of 10% is debatable (Skully, 2011), according to Ebrahim (2010), the charge is inevitable in order to ensure the sustainability of the institution. However, he added that the charges should not be based on the interest rate.

1 good friend
2 peace be upon him
3 Islamic law

Furthermore, Hassan (2013) claimed that the average cost of financing for AIM between 2001 and 2008 was at the average of 11%. Therefore, she stated that the 10% administrative fee is reasonable and has been approved by the *Shariah* Panel Committee as it is not based on the interest rate, "but to compensate the cost directly spent to render such service" (p. 71).

Moreover, each *sahabat* is also required to contribute in the "Compulsory Savings" amounting from RM14 to RM15 per week depending on their loan size. The compulsory savings are collected during the compulsory weekly meetings and may be borrowed by the *sahabat* within the same group who might have shortage in paying their loans. However, the amount borrowed must be repaid as soon as possible by the *sahabat* once they have the money. Besides, the *Sahabat* Charity and Welfare Fund (*Tabung Kebajikan dan Kesejahteraan Sahabat*, TKKS) was established in 2006 to meet the demands of the *sahabats*. Among others, the objective of this fund is to improve the welfare of the *sahabats* and to help them during difficult times such as during the death of their family members, natural disasters, or health problems. In addition, TKKS provides some contribution for the *sahabats* to perform *Haj* in Mecca and for the *sahabats'* children to enrol at the university. However, in order to receive the benefits from this fund, *sahabats* are required to contribute RM 1.00 per month or RM 12.00 per annum into the TKKS.

In general, to become the *sahabat*, the participants must be above 18 years old and have a household income of lesser than RM3,050. After confirming their eligibility to participate in AIM, the applicants are required to form a group of five from the same neighbourhood. They are also required to complete a 5-day course (1.5 hours per day) known as "*Proses Penurunan Kuasa*" (or Handing Down Authority). During the course, the potential *sahabats* are exposed to the AIM rules and regulations, credit discipline, and responsibility of the *sahabats* as individuals, group members, and members of the centre. At the end of the course, the potential *sahabats* are tested on their honesty, responsibility, and accountability by the AIM officers before being accepted into the programme. With a minimum of 2 groups and a maximum of 10 groups, a centre will be formed and all *sahabats* are required to attend the centre's weekly meeting. All AIM transactions such as loan applications, loan repayments, and collections of compulsory savings

4 RM 1.00 = 0.24 USD

will be held during this centre weekly meeting (Abdul Kadri, September 2013; AIM, 2013).

Empirical studies conducted on AIM have shown that the program has a positive socio-economic impact. Gibbons and Kassim (1990) found that there was a significant increase of *sahabat*'s monthly household income after participating in the AIM's microcredit scheme. A similar result was found in a study conducted by the Social Science and Economic Research Unit (SERU) of the Prime Minister's Department in 1990. The impact study discovered that the overall household income had been increasing significantly from RM197.78 to RM465.66 per month after joining the AIM program. SERU (1990) also examined the impact of AIM on the quality of life of *sahabat* by analyzing the ownership and quality of housing, type and quality of household assets, agricultural land and also savings. Moreover, a research comparing the household incomes, expenses, savings and assets of the AIM participants with non-participants identified that the AIM participants' overall financial performance were better as compared to the non-participants (Salma, 2004). Furthermore, a few studies indicated that the Malaysia's achievement in significantly reducing the poverty rate from 16.5% in 1990 to only 3.6% in 2007 is highly related to the AIM microfinance schemes as this was also the period when AIM provided financial services to the poor and hardcore poor households in Malaysia (Gibbons & Kassim, 1990; Mamun, Abdul Wahab, & Malarvizhi, 2011).

Loan Repayment

Similar to other group-based modeling MFIs, AIM has constantly been reporting a high repayment rate. In 2010 for instance, AIM has made a claim on what was considered as the world's highest repayment rate of 99.2% (Fox, July 2010). Commenting on the reported figure, the then Chairman of AIM, Datuk Amir Hamzah Ahmad claimed that the high repayment rate was possible in the organization as they have high quality borrowers (2010). In more recent years, the reported figure have also been constant at around 99%. For example, 99.54% in September 2012; 99.36% in March 2013; and 98.9% in June 2015 (AIM, 2016). Following the Grameen approach, AIM practises a small repayment system where the *sahabats* are required to make the payment weekly during the centre meeting. However, no legal action will be taken by the AIM if the *sahabats* failed to make the payment (Mamun, Wahab, Malarvizhi & Mariapun, 2011).

Social Loafing

As AIM is based on group lending there is high possibility that the free-riders do exist among the *sahabats*. Free-Rider theory is often used to explain the situation where an individual is receiving benefits without any or minimal cost borne by him or her. Explaining the Olson's Free-Rider theory, Albanese and Van Fleet (1985) argued that the theory was originally concerned primarily with the provision of public goods to the large group of individuals. Theoretically, it was argued that providing free products or services to individuals may result in inefficiency and under provision of those goods or services. Although the free-rider issue is common in the context of public goods (Ihori, 2017), similar concepts have also been applied to discuss other issues such as group performance (Piezon & Donaldson, 2005; Ruël, Bastiaans & Nauta, 2003; Thavikulwat & Chang, 2014), optimum size of the jury (Mukhopadhaya, 2003), trade investment (Battaglini, Nunnari & Palfrey, 2014; Shasha & Jingping, 2014), and union membership (Powdthavee, 2011).

With regards to group performance, previous studies suggested that free-rider was highly related with the "social loafing", a phenomenon related to the inefficiency of individuals working in a group (Karau & Williams, 1993; Simms & Nicholas, 2014; Smith, 2017). Started with the Ringelmann experiment in 1913 on a group of people pulling on a rope, "social loafing" suggested that individuals tend to exert less effort when working in a group as compared to working individually (Simms & Nicholas, 2014). In general it is believed that "social loafing" is caused by an individual feeling that his or her effort has no effect on the group performance as a whole, thus reducing the person's motivation level.

In the context of group financing, more recent studies have highlighted the possibilities of strategic default through free-riding (Allen, 2012; Breza, 2012; Kurosaki & Khan, 2012). Free-riding was defined as "the problem of the non-performing group member who reaps the benefit of the accomplishments of the remaining group members without little or no cost to him/herself" (Morris & Hayes, 1997, p. 3). The experiment conducted in Vietnam by Kono (2014), for instance found that an individual tend to free-ride under the group financing scheme especially when there are other group members who are irresponsible in repaying their loans in the previous round of the experiment. To test the economic theory, Kono (2014) conducted a series of experimental repayment games in Quang Ngai Province, one of the poorest provinces in Vietnam in August and September 2008. Throughout the experiments, 360 subjects were involved with 347 subjects were considered as valid.

During the experiments, subjects were randomly grouped into either a group of two or six. In each round of the experiment, subjects were given loans to earn some random predetermined income. Later, after observing their own income plus the group members', they had to decide whether to repay their loan or not. If some members in the group did not repay their own loans, other group members were asked to pay on their behalf. In the next round of the games, defaulting individuals (individual liability) or groups (joint liability) were prohibited to further involvement. From the experiments, Kono (2014) noted that a subject tends to choose the option of defaulting when other members in the same group are likely to default. This is highly related with the fact that under the group lending, all group members are required to cover for the defaulting borrowers in their groups, thus discouraging them to repay their own loan. Overall, Kono (2014) confirmed the theory as he found the existence of free-riding under the joint liability and no evidence of free-riding under the individual liability. As there is no other known empirical study investigating the problems of free-riding under the joint liability lending, the findings by Kono (2014) should be revisited as the impact is significant to the microfinance industry in the long run.

As previous studies on AIM have mainly examined the impact of the programme on the clients, there are no known studies on the existence of social loafing or free riding in the organization. As AIM is based on group financing, thus prone to this social problem, this study therefore aims to explore the presence of social loafing or free riding in AIM by focusing on the 6 AIM branches in Selangor.

METHODOLOGY & RESEARCH DESIGN

Due to the exploratory nature of the research, this study adopts a qualitative method that combines both observation and interviews. For the purpose of this study, 21 centre meetings in Selangor were observed between April and June 2015. Centre meetings are crucial in AIM as all AIM transactions such as loan applications, loan repayments, and collections of compulsory savings are held during this centre's weekly meeting (Abdul Kadir, September 2013; AIM, 2013). In general, based on the observation, the weekly meetings are held in among the *sahabats* and the AIM Trust Officer, normally called as *cikgu* (or teacher) by the *sahabats*. The weekly meetings are compulsory for all the *sahabats.* Depends on the number of groups in each centre, there were between 20 and 60 *sahabats* attending each meeting. Starting the weekly meetings with the pledge and pray recitation, the meetings were normally continued with the loan repayments, new loan applications, and new loan approvals. Any arising issues among *sahabats* and AIM and future activities such as leadership training were also discussed in the meeting. The meetings generally took about an hour, and after the meetings, there was the opportunity to chat casually with some of the *sahabats* about AIM and their daily activities including the existence of free-riders in their centres or groups. Based on the connection build during the meetings, a few *sahabats* were approached on their willingness to be interviewed for the purpose of this study. Later, 12 *sahabats* were interviewed via telephone to further understand their stand on the "free-riding" issue.

FINDINGS AND DISCUSSION

Observation during the Weekly Meetings

Based on the observation during the weekly meetings, two main issues were found highly related with the free-riding problems; i) attendance rate and ii) method of collection. As all AIM transactions are conducted in the meetings and AIM has made it compulsory for all *sahabats* to attend the meetings (bad attendance may affect their new loan applications), it is expected that the attendance rate was high at all centres. However, as two-thirds of the centres observed recorded more than 90% attendance rate (with 5 centres recorded full attendance), only six centres recorded between 70% and 90% attendance. Shockingly, it is even noted that one centre has less than 40% attendance. This situation is alarming as not attending the compulsory weekly meeting indicated that the centre is not fully functioning, thus affecting the repayment rate at the centre. Consequently, it will also affects the new loan applications by other *sahabats* in the particular centre. Asking about the situation, we were informed by these *sahabats* that others refuse to attend the meeting as they did not want to pay for the defaults. It started with one *sahabat* who refused to pay for her loan, forcing other members to repay on her behalf. As the situation was not properly controlled from the beginning, it became worse. As some *sahabats* felt cheated with the situations and decided to quit from the programme, some even decided to stop paying their own loan as they realized that no legal actions were taken against the earlier defaulters. As it was getting worse, AIM was even considering closing the particular centre, a decision that was not new to the organization according to the *cikgu* of the centre. As a result, AIM had to bear the losses, while the obliged *sahabats* would miss the opportunity to borrow from AIM in the future. More importantly, other *sahabats* in other centres might learn to take advantage from the situations, thus strategize to default.

Besides the attendance, it was also observed that different centres have different methods or strategies to collect the money from those who were unable to pay for their loans. Observing the loan collection process during the meeting, in general, each group leader will collect the money from their group members during the meeting. The leader will then announce the amount collected to all members in the centre and passed the money to the treasurer of the centre. The treasurer is normally appointed among the *sahabats* annually. After the treasurer collects the money from all group leaders, the total amount is then verified and surrendered to the *cikgu* witnessed by all members in the centre. Those who are unable to attend the meetings for various reasons would normally pass the money to the group leaders prior to the meeting. However, problems arise when a *sahabat* failed to make her payment either purposely or unintentionally. Based on the observations, it was found that each *cikgu* has different ways to tackle the issue such as:

1. allow *sahabat* to use group savings
   All *sahabats* are required to contribute in the "Compulsory Savings" amounting from RM1 to RM15 per week depending on their loan size. The savings were kept in the group savings and some *cikgu* allow the *sahabat* to use money from the group savings to repay his/her loan for that particular week. The money, however, needs to be repaid as soon as possible as it also consists of other group members' savings.

2. collect money from the group members
   Instead of using the group savings, some *cikgu* asked other group members to repay on behalf of the particular *sahabats* as according to the *cikgu,* group members are responsible to help the *sahabats.* Moreover, AIM is practising a joint liability scheme.

3. collect money from all *sahabats* in the centre (sometimes including the *cikgu*)
   It was also observed that a number of *cikgu* requested each *sahabat* in the centre to share the burden together instead of the members of the group. Therefore, the total amount that was to be paid by the particular *sahabat* was divided among the *sahabats* attending the meeting for the day in the centre. It is believed that by using this method, the amount paid by each *sahabat* is not significant as compared to the b) method above. Interestingly, some *cikgu* also felt responsible to pay on behalf of the *sahabat.*

4. willingness of other *sahabats* to pay on behalf (especially the successful *sahabats*)
   Moreover, there are also situations when other random *sahabats* in the centre either in the same group or not (especially the successful *sahabats*) were willingly to pay on behalf of those who fail to make the payment for the week. According to the *sahabats,* this is common especially if they have close relationship.

5. record no collection for the week
   Alternatively, some *cikgu* decided not to collect from the particular *sahabat* for the week. For the particular *sahabat* that did not attend the meeting and failed to make payment, the *cikgu* decided to visit the *sahabat* in the near future. Some even decided to report to the headquarters especially for the serious cases such as the above mentioned centre that had less than 40% attendance rate.

From the observations, it seems that all *cikgus* have their own ways to collect the money for the defaulters. An opportunity to ask one of the heads of the branches about such situations, he claimed that there is no standard operating procedure for the *cikgu* to collect money from the defaulters as it depends on the *cikgu*'s discretion. He further added that each situation is unique as *sahabats* have various reasons for not paying. This includes project failure, sickness (either *sahabats* or dependents), or cash flow problems. However, he agreed that methods b), c), and d) above are dangerous and need to be properly monitored by the *cikgu* to avoid the defaulters from taking advantage especially if it happens too frequently.

Telephone Interviews

Later, based on their agreements to be further interviewed for the purpose of this study, 12 *sahabats* were interviewed via telephone. All *sahabats* were asked about the issue of free-riders in their centres if there are any. On average, the interview sessions lasted between 10 to 30 minutes. The background of the *sahabats* interviewed is summarized in Table 1 below:

Table 1: Background of the Interviewees

Participants	Years in AIM	Nature of Business	Financial Performance
A	5 Years	Food, Craft, Agriculture	Monthly Sales: RM3,500 Monthly Profit:RM2,000 ROE:0.20
B	4 Years	Craft	Monthly Sales: RM2,500 Monthly Profit: RM1,000 ROE: 0.25
C	5 Years	Others - Clothes	Monthly Sales: RM3,000 Monthly Profit: RM1,000 ROE: 0.14
D	3 Years	Food	Monthly Sales: RM200 Monthly Profit:RM150 ROE:0.02
E	5 Years	Food	Monthly Sales: RM5,000 Monthly Profit: RM3,000 ROE: 0.48
F	8 Years	Food & Groceries	Monthly Sales: RM50,000 Monthly Profit: RM15,000 ROE: 0.75
G	3 Years	Agriculture	Monthly Sales: RM500 Monthly Profit:RM350 ROE: 0.02
H	3 Years	Others – Spa Services	Monthly Sales: RM2,000 Monthly Profit: RM1,200 ROE: 0.08

Participants	Years in AIM	Nature of Business	Financial Performance
I	7 Years	Food	Monthly Sales: RM1,500 Monthly Profit: RM1,200 ROE: 0.12
J	9 Years	Craft	Monthly Sales: RM1,000 Monthly Profit: RM500 ROE: 0.06
K	4 Years	Food	Monthly Sales: RM3,000 Monthly Profit: RM2,400 ROE: 0.30
L	8 Years	Food & Craft	Monthly Sales: RM5,000 Monthly Profit: RM3,000 ROE: 0.48

During the interview, it was found that two *sahabats* were directly affected by the free-riders in their group. Despite earnings about RM2,000 and RM3,000 net profit per month, participants A and L, for instance are financially challenged as they are also required to pay the AIM loans on behalf of the other participants in their groups. Having to admit that they are even struggling to meet their weekly repayments, they are more frustrated as their group members are taking advantage on them. Undeniably, paying for the other members did affect their financial budget as the money can be used for other business expenses. As per participant A, she claimed that her own loan repayment takes up about 30% of her business expenses and the situation worsens as she is also forced to pay for Mrs. X. Extremely frustrated with the situation, A is considering quitting from the AIM after more than 5 years with the organization.

> *"My other group members and I were sharing to repay Mrs. X's loan. I myself am paying about RM110 weekly to AIM. Besides this, we were sharing around RM10 to RM15 per week for Mrs. X. Although the amount seems small, I spend almost RM50 monthly for her and this has been dragging for 5 months now. Instead of paying for Mrs. X, it is better for me to use the money to buy raw materials for my business".*
>
> (Participant A)

Similar issue was also being highlighted by participant L. Apart from having one problematic group member, her condition is worse as there are two defaulters in her group. Sharing the burden with the other two group members, L declared that she spent about RM300 per week to repay her loan and the two defaulters, covering more than 40% of her business's weekly expenses. Believing that various efforts have been taken by her group members and the AIM Officers, she asserted that the defaulters are just ignoring them. According to participant L,

> *"We (her group members, the AIM officers, and she herself) did go to their house a few months back. But they said that they had no money to pay and promised to pay us once they have the money. But until today, both were quiet. It is difficult. They should know that the loan repayment is compulsory".*
>
> (Participant L)

Admitting that the other *sahabats* and even the AIM Trust Assistant in the centre are also helping in paying for the two defaulters, L said that the burden is on her and her other group members as their future chances to borrow more from AIM depend on her group's repayment performance. Having been with AIM for about 8 years, L said that she is extremely frustrated with the situations. She further added,

> *"Although non-repayment was common, it is not normal for a participant to simply refuse to repay their loan without any reasons. Moreover, their loans were considered as huge at about RM5,000 each. And after 8 years, this is the first time I am directly affected by this problem. I should be more careful in the future (in selecting my group members)".*
>
> (Participant L)

Besides A and L, majority of the *sahabats* interviewed agreed that they were not pleased if any of the members in their centres are not repaying their loan without any concrete reasons. Except for 3 interviewees (Participant A, L, and N), others agree that the problem was not significant in their centres. However, all of them concurred that if there were any loan discrepancies, initially, they would collect money from all members in the centres/groups in order to help the particular *sahabat* in settling her loan payment. "But if the situation persists, normally the AIM officer (addressed as *Cikgu* by the *sahabat)* will take charge. *Cikgu* will visit their home with the group/

centre leader asking about their problems," said Mrs J. "Even sometimes, *cikgu* will help paying the loan on behalf of the *sahabat*…" according to N.

CONCLUSION AND RECOMMENDATION

Therefore, to some extent it seems that the free-riding problem does exist in AIM. Although many were trying their level best to pay the loan, including borrowing from their family members, some were taking advantage of the policy. Thus, as what has happened to the participants A and L, they were forced to repay on behalf of their group members. A similar situation was observed earlier in this study. As other centres normally recorded more than 90% attendance rate, less than half of the *sahabats* were attending the weekly meeting at a particular centre. Asking about the situation, we were informed by these *sahabats* that others refuse to attend the meeting as they did not want to pay for the defaults. It started with a person who refused to pay for her loan, it spread quickly to other *sahabats* in the centre. This finding is consistent with Kono (2014) that suggested a person is likely to default when he or she realizes that other members in the group are irresponsible in paying their loan. As some *cikgu* in AIM were asking all other *sahabats* in the centre (instead of the group) to shoulder for the defaulters, the impact can be seen not just in the particular group, but the whole centre. As a result, it is expected that the centre will not sustain and will collapse in the near future. Shockingly, although the situation is not common, the *cikgu* admitted that similar situations happened before in other centres. Not just a loss to AIM, the obliged *sahabats* were also affected as they would miss the opportunity to borrow from AIM in the future, indirectly affecting their income.

Many MFI prefer to adopt the group-based model as it transfers the risk from the provider to the borrower. Although it is proven that the model is effective in ensuring the high repayment rate, the existence of social loafing however shall not be ignored. Exploring the issue among the AIM members, this study found that the incidence do exist in this largest and oldest MFI in Malaysia, however, the seriousness of this issue is unknown and shall be investigated further in the future. From this exploratory study, it can be concluded that free-riding is a serious issue that needs to be controlled from the beginning. Although the group lending mechanism is supposed to transfer the risk from AIM to the *sahabats*, it was not entirely true when a group of *sahabats* decided to be the defaulters. As taking legal actions against the defaulters would make the poor *sahabats* to stay away from the organization, the officer in charge (*Cikgu)* needs to take preventive measures from the beginning to ensure that free-riding would not be a major issue in their centres.

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